

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01

L-03 H-02 PA-02 PRS-01 /111 W
----- 120749

R 201819Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2196

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 09545

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 20

BEGIN SUMMARY: THE DESCENT INTO RECESSION IS QUICKENING
WHILE INFLATIONARY PRESSURES CONTINUE TO MOUNT. THERE
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ARE INCREASING CALLS FOR AN EFFECTIVE INCOMES POLICY TO

HALT INFLATION -- THE BANK OF ENGLAND WEIGHED IN THIS WEEK SUPPORTING A STATUTORY WAGE POLICY -- AND THE DECISION OF THE AUEW, ONE OF THE LARGEST AND MOST POWERFUL UNIONS, TO REJECT ANY FORM OF "SOCIAL CONTRACT" MAY

HASTEN THE ADVENT OF SUCH A POLICY. THERE IS INCREASING PRESS SPECULATION THAT SUCH A POLICY MOVE BY THE GOVERNMENT IS NEAR. THE THREATENED RAILROAD STRIKE, WHICH WILL ONLY BE SETTLED BY A PAY AWARD BEYOND THAT SUGGESTED BY AN ARBITRATION PANEL, POSES A SHORT TERM DILEMMA TO THE GOVERNMENT IN BOTH ITS THREAT TO THE ECONOMY AND ITS POSSIBLE SIGNAL TO UNIONS THAT THE GOVERNMENT IS NOT YET READY TO HOLD THE LINE ON WAGE INCREASES. THE NEXT TWO MONTHS WILL BE CRITICAL FOR THE UK ECONOMY. END SUMMARY

1. UNEMPLOYMENT. ON A SEASONALLY ADJUSTED BASIS, UNEMPLOYMENT ROSE BY 48,000 IN MAY TO OVER 900,000. THIS IS 3.9 PERCENT. THE ACTUAL RISE (UNSEASONALLY UNADJUSTED) FOR MAY WAS 19,500 TO A TOTAL OF ALMOST 870,000, A RATE OF 3.7 PERCENT. THE NUMBER OF EMPLOYEES ON SHORT-TIME NOW STANDS AT 205,000 AND VACANCIES FELL BY ABOUT 14,000.

2. INDUSTRIAL PRODUCTION. APRIL FIGURES INDICATE A 0.9 PERCENT DECLINE IN INDUSTRIAL PRODUCTION. THE INDEX -- WHICH HAS BEEN REVISED DOWNWARD AS EXPECTED -- SEE LONDON 6734 -- SHOWS APRIL AT 102.5 (1970 EQUALS 100) COMPARED WITH 103.4 FOR MARCH (DOWNWARD BY 1.0 PERCENT) AND 105.0 FOR BOTH JANUARY AND FEBRUARY (REVISED DOWNWARD BY 0.2 AND 0.3 PERCENT RESPECTIVELY). THE INDEX FOR TOTAL MANUFACTURING FELL SLIGHTLY IN APRIL TO 103.2 FROM 103.3 IN MARCH. THE APRIL FIGURES ARE BOTH BELOW THE RESPECTIVE INDEX NUMBERS FOR THE FIRST QUARTER OF 1974, THE PERIOD OF THE 3-DAY WEEK, AND BOTH ARE SUBJECT TO REVISION.

3. RETAIL SALES. CONSUMERS REACTED TO THEIR APRIL PRE-TAX SPENDING SPREE BY REDUCING RETAIL PURCHASES IN MAY BY 14 PERCENT. THE PROVISIONAL INDEX NUMBER FOR REAL RETAIL SALES IN MAY IS 103.0 (1971 EQUALS 100 -- SEASONALLY ADJUSTED) COMPARED WITH 120.2 IN APRIL AND 109.4 IN MARCH. UNCLASSIFIED

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THE AVERAGE FOR APRIL AND MAY, HOWEVER, IS 111.6 WHICH COMPARES TO THE FIRST QUARTER 1975 FIGURE OF 111.5 AND CONFIRMS THE LEVEL TREND OF RETAIL SALES SINCE MID-1974. THESE FIGURES ARE SUBJECT TO EXTENSIVE REVISIONS, HOWEVER.

4. WAGES. THE INDEX OF BASIC WEEKLY WAGE RATES ROSE BY 3.5 PERCENT IN MAY AND IS UP BY 32 PERCENT OVER THE PAST 12 MONTHS. THE INDEX NUMBER FOR MAY IS 174.2; FOR APRIL

THE NUMBER IS 168.3 (REVISED UPWARD). JULY 1972 EQUALS
100.

5. EARNINGS. APRIL FIGURES FOR EARNINGS SHOW AN INCREASE
IN THE INDEX OF AVERAGE EARNINGS OF 1.0 PERCENT. FOR THE
PAST YEAR, THE EARNINGS INDEX HAS RISEN BY 30.5 PERCENT.
BUT THERE IS SOME INDICATION OF A DECELERATION IN THE
RATE OF INCREASE, MAINLY BECAUSE OF RECESSION-INDUCED
SHORTER WORKING HOURS AND SHORT-TIME WORKING.

6. BANK OF ENGLAND QUARTERLY BULLETIN. THE BANK OF
ENGLAND (BOE) CALLS FOR A TOUGHER (AND IMPLICITLY A
STATUTORY) WAGES POLICY. BOE BELIEVES, HOWEVER, PRICES

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L-03 H-02 PA-02 PRS-01 /111 W
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R 201819Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2197

INFO AMEMBASSY BERN

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SHOULD NOT BE CONTROLLED IN ORDER THAT COMPANY PROFITS
 IMPROVE AND INDUCE INCREASED INVESTMENT. THE BANK ALSO
 REPORTS THAT THE UK CONTINUES TO RECEIVE A SUBSTANTIAL
 PORTION OF THE OPEC OIL SURPLUS FUNDS EITHER IN STERLING
 OR THE EUROCURRENCY MARKET. BOE CALCULATES THAT IN THE
 FIRST QUARTER, THE UK RECEIVED ABOUT 31 PERCENT OF THE
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OPEC SURPLUSES; 11 PERCENT WENT INTO STERLING INVESTMENTS
 AND ABOUT 20 PERCENT WAS IN EUROCURRENCY DEPOSITS. THE
 BANK BELIEVES THAT THE INFLOW OF SUCH FUNDS TO THE US WAS
 SHARPLY REDUCED IN THE FIRST QUARTER.

7. EXCHANGE RATE AND GOLD:

	6/12	6/19	CHANGE
EXCHANGE RATE	\$2.2785	\$2.2740	DOWN \$0.0045
EFFECTIVE DEPRECIATION			
(PERCENT)	26.2	26.3	WIDENED 0.1
GOLD	\$166.00	\$162.75	DOWN \$3.25

8. FORWARD DISCOUNT ON STERLING:

	6/12	6/19	CHANGE
1 MONTH	0.95	0.72	DOWN 0.23
3 MONTHS	2.90	2.42	DOWN 0.48
6 MONTHS	5.85	5.22	DOWN 0.63

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	6/12	6/19	CHANGE
1 MONTH	5-1/2	5-1/2	UNCHANGED
3 MONTHS	5-7/8	6	UP 1/8
6 MONTHS	6-3/4	6-7/8	UP 1/8

10. LOCAL AUTHORITY DEPOSIT RATES:

	6/12	6/19	CHANGE
1 MONTH	9-3/8	9-1/8	DOWN 1/4
3 MONTHS	9-7/8	9-9/16	DOWN 5/16
6 MONTHS	10-1/8	9-15/16	DOWN 3/16

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10 PER-
 CENT ON FRIDAY, JUNE 20, 1975.

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Message Attributes

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Draft Date: 20 JUN 1975
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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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Margaret P. Grafeld
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06 JUL 2006

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Review Withdrawn Fields: n/a
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TAGS: ECON, UK, US, CHEVRON OVERSEAS PETROLEUM INC
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Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006